

E-001/GR-86-384APPROVING COMPLIANCE FILING

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Barbara Beerhalter	Chair
Cynthia A. Kitlinski	Commissioner
Norma McKanna	Commissioner
Robert J. O'Keefe	Commissioner
Darrel L. Peterson	Commissioner

In the Matter of the Petition of Interstate
Power Company for Authority to Increase Its
Rates for Electric Service in the State of
Minnesota

ISSUE DATE: October 12, 1988

DOCKET NO. E-001/GR-86-384

ORDER APPROVING COMPLIANCE
FILING

PROCEDURAL HISTORY

On April 15, 1988, the Minnesota Public Utilities Commission (the Commission) issued its ORDER DIRECTING RECALCULATION OF COMPLIANCE RATES AND SETTING COMMENT PERIOD in this proceeding. That Order required Interstate Power Company (Interstate or the Company) to recalculate revenue requirements and rates for its general service and large power and lighting classes.

On May 13, 1988 the Company filed revised rates in compliance with the April 15, 1988 Order. Under these tariffs some customers would experience large rate increases (up to 519% over interim rates).

The April 15 Order established a ten-day period for interested parties to review and comment on Interstate's filing. On May 23, 1988 the Commission granted a request from the Department of Public Service (DPS or the Department) for an additional ten days to file its comments.

On June 1, 1988 the Department filed a request for an additional 30 days for the Department, the Residential Utilities Division of the Office of the Attorney General (RUD-OAG), and the Company to further investigate the revised compliance filing. The Commission granted the request on June 17, 1988.

On July 18, 1988 Interstate filed a Status Report and Motion for Extension of Time, requesting an additional 30 days to develop the data necessary for the Commission to determine the optimal value for a cap on General Service Billing demand. The Department and the RUD-OAG supported the Company's request for a time extension. The Commission granted the request on July 21, 1988.

On August 22, 1988, the Commission received recommendations for alleviating the severe billing

impacts for certain General Service customers from the Company, the DPS, and the RUD-OAG. Interstate also filed proposed compliance schedules and rates to be substituted for those filed earlier along with the data all three parties used to analyze various rate cap effects.

The Commission met on October 4, 1988 to consider the filings of the parties.

FINDINGS AND CONCLUSIONS

The Commission must choose a method compatible with the Commission's rate design decisions in this case to set rates which will mitigate unacceptably large rate increases for General Service (GS) customers with poor load factors and will result in just and reasonable rates for all the Company's General Service and Large Power customers.

The customers with poor load factors would receive large increases (some as high as 519%) primarily due to their movement from a two-part General Service rate (customer and energy, with a stretcher block for demand-metered customers) to a three-part rate (customer, demand and energy) under the revised General Service tariff or Large Lighting and Power tariff.

The parties agreed that the following steps are necessary to mitigate the large billing impacts:

1. Base the revenue requirement of each class on the apportionment approved by the Commission, plus or minus any revenue attributable to customers shifting to or from the class.
2. Restrict eligibility under the Large Lighting and Power tariff to customers whose average monthly consumption exceeds 20,000 kwh and whose monthly demand exceeds 50 kw.
3. Allow demand-metered customers to switch to an energy-only rate schedule if they meet both of the following requirements:
 - A. Consumption under 1,500 kwh for each of 12 consecutive months; and
 - B. A maximum demand of less than 6 kw for each of 12 consecutive months.
4. Cap the monthly billing demand for General Service customers at the customer's kwh consumption during the billing month divided by a specified number of hours per month.

It is on implementing the fourth point that the parties disagreed. The DPS and the Company recommended that the Commission establish a 40-hour cap while the RUD-OAG recommended a 70-hour cap.

The differences in these positions is quite clear. The lower cap will better reflect cost causation in customer bills and will reduce the intra-class subsidy. The 70-hour cap will better mitigate adverse

billing impacts.

The Commission believes that a 40-hour cap strikes a reasonable balance between the goals of moderating rate increases, limiting revenue shortfalls, and sending proper price signals. The Commission believes that the 40-hour cap with the other three revisions listed above will significantly the billing impacts which would have resulted from the Company's May filing.

The Commission does recognize that the billing impacts on the demand-metered GS customers will still vary widely. While the overall rate increase to this class is virtually 0%, impacts on individual customers will range from significant rate reductions to increases up to 60%.

The Commission notes that such differences in billing impacts are not unusual when rate structures change significantly. In this case, instituting a demand charge for large GS customers tends to lower bills for customers with high load factors and raise bills for customers with poor load factors. The Commission finds that the 40-hour cap on billing demand as a percentage of kwh consumption will protect customers with poor load factors from experiencing astronomical rate increases, but will provide them with an incentive to improve their load factors. While mitigating the billing impacts for these customers, the Commission finds it reasonable that their rates move closer to cost. Finally, monthly increases over 25% are confined to relatively few customers. The Company estimates that in no month will more than 13% of its demand-metered GS customers experience increases greater than 25%, while no more than 3% will receive increases greater than 50%.

Next, because any cap on billing results in lost revenues, the Commission must determine how those revenues will be recovered.

The Company proposed that the short fall be recovered in the energy charges of the demand-metered GS customers. The RUD-OAG proposed recovery through the energy charges of the entire GS class.

The lost revenues result from capping the billing demand of demand-billed GS customers, and represent unrecovered demand-related costs associated with such customers. If the lost revenues are recovered from the same group, as proposed by the Company, those GS customers who are not demand-billed will not be required to subsidize those who are.

If, however, the lost revenues are too great, assigning their recovery to only the demand-billed customers could aggravate the adverse bill impacts that the demand cap was designed to solve. In that situation, the RUD-OAG proposal would be preferable, as it would spread the recovery over several thousand additional GS customers.

The Commission finds that the two proposals relate quite clearly to the parties' proposals on the billing cap. A 40-hour cap, recommended by the Company, results in undercollection of approximately \$87,000. The 70-hour cap of the RUD-OAG would undercollect approximately \$150,000. The smaller, \$87,000 shortfall can be made up within the roughly 1,900 demand-billed GS customers without aggravating the billing impacts unduly. Had the Commission chosen the 70-hour cap, it might well have taken the RUD-OAG's suggestion on lost revenue recovery. Given the 40-hour cap, the Commission finds that recovering the revenue shortfall among only the demand-

billed GS customers best balances the competing interests of reducing cross-subsidization and presenting moderate billing impacts.

Finally, the Commission finds that the remaining compliance rates are just and reasonable as proposed and will approve them.

The Commission notes that the rates approved here are effective as of July 1, 1987 and will authorize that they be implemented with the first November billing cycle. The Commission will require the Company to submit a refund plan for Commission approval.

ORDER

1. The rate schedules for the General Service and Large Lighting and Power class as modified above and the remaining rate schedules contained in the Company's earlier compliance filings are hereby approved, effective July 1, 1987. The Company shall implement these approved rates with its first billing cycle in November.
2. Within 30 days of the issue date of this Order, the Company shall file with the Commission and serve on all parties to this proceeding a plan for refunding to customers the excess revenues collected under interim rates.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen
Executive Secretary

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